



State of Washington
Department of Revenue

Excise Tax Advisory

Excise Tax Advisories (ETA) are interpretive statements issued by the Department of Revenue under authority of RCW 34.05.230. ETAs explain the Department's policy regarding how tax law applies to a specific issue or specific set of facts. They are advisory for taxpayers; however, the Department is bound by these advisories until superseded by Court action, Legislative action, rule adoption, or an amendment to or cancellation of the ETA.

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AMOUNTS RECEIVED BY ONE CORPORATION FOR TWO AFFILIATED CORPORATIONS TO COVER THE COSTS OF RESEARCH

Issued September 30, 1966

Where a corporation receives amounts to cover the actual cost of research done by its employees for the benefit of itself and of two affiliated corporations, are such amounts taxable under the "Service" classification?

The taxpayer, a glass manufacturer, was assessed a Business Tax under the "Service" classification upon amounts paid to it by two affiliated corporations to cover the costs of engineering and research performed locally at its in-state location for the benefit of itself and the two affiliates. All these firms were engaged in the glass manufacturing field and each firm bore one-third of the total cost of the projects. The taxpayer contended that all three firms were merely engaged in performing cooperative research projects and that no business services were rendered by it to the other two firms. All the employees for the project were provided by the taxpayer. The allocation among the firms was based on the total of direct labor of these employees plus expenses incurred for materials and overhead. If the taxpayer had not invested the services of its employees and facilities, there would have been no payment or advance of funds by the other two firms.

The Tax Commission held that the taxpayer and its two affiliates were separately organized corporations, and, therefore, the three were separate "persons" for excise tax purposes. Rule 201 allows a deduction for inter-departmental charges but states

"This does not permit the exclusion or deduction of charges against or income derived from an affiliated corporation or other affiliated association."

ETBS have been made Excise Tax Advisories, and have retained their old number. Advisories with a 2 (plus three digits) are new advisories, ETBs that have been revised and readopted after review under the Department's regulatory improvement program, or advisories that have been revised and/or readopted.

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Further, Rule 203 provides

"Each corporation shall file a separate return and include therein the tax liability accruing to such corporation. This applies to each corporation in an affiliated group, as the law makes no provision for filing of consolidated returns by affiliated corporations or for the elimination of intercompany transactions from the measure of the tax."

The Commission concluded that the taxpayer's employees performed valuable and substantial services for the other corporations, and, therefore, its charges for such services constituted taxable transactions. Further, the Commission ruled that the fact that the amount of the charges was calculated to reimburse actual costs incurred was immaterial, since no provision exists in the law for the exemption of transactions made at no profit. (Order.)